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RUEAIIA/CIA WASHINGTON DC  
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C O N F I D E N T I A L SECTION 01 OF 03 LAGOS 000075

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STATE FOR AF/W, INR/AA, DS/IP/AF, DS/ICI/PII, DS/DSS/OSAC  
DOE FOR GPERSON  
TREASURY FOR ASEVERENS, SRENENDER, DFIELDS  
COMMERCE FOR KBURRESS  
STATE PASS USTR FOR ASST USTR FLISER  
STATE PASS TRANSPORTATION FOR MARAD  
STATE PASS OPIC FOR ZHAN AND MSTUCKART  
STATE PASS TDA FOR NCABOT  
STATE PASS EXIM FOR JRICHTER  
STATE PASS USAID FOR GWEYNAND AND SLAWAETZ

E.O. 12958: DECL: 02/22/2018  
TAGS: [ENRG](#) [EPET](#) [PGOV](#) [PREL](#) [NI](#) [CH](#)  
SUBJECT: SHELL WORRIES ABOUT CHINESE IN NIGERIA; CLAIMS  
NATIONALIZATION IS POSSIBLE

REF: 07LAGOS 000749

Classified By: Deputy Chief of Mission Lisa Piascik for reasons 1.4 (B)  
and (D)

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¶1. (C) Summary. Shell's Vice President for Africa Ann Pickard met with the Ambassador on February 20. She admitted that the company badly miscalculated the new Nigerian administration and is playing catch up to ExxonMobil and Chevron. She claims new Nigerian petroleum legislation could lead to the nationalization of the industry and called the presidential special advisor drafting related legislation "dangerous." Pickard believes that President Yar'Adua's upcoming trip to Beijing may be a prelude to increased Chinese participation in Nigerian oil operations. Shell sees the Chinese as a serious threat in Nigeria. The security in the western Niger Delta remains a problem with the east relatively quiet she noted. Local Niger Delta governors are a mixed bag and none are truly pushing socio-economic advancement. Shell's opinion that Nigeria is the next Venezuela is clearly a result of its unique operating profile and it is not a view widely shared in the industry. End Summary.

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Shell Scrambles to Adjust to New Administration  
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¶2. (C) During an introductory meeting with the Ambassador on February 20, Shell's Executive Vice President for Africa, Ann Pickard, reviewed the myriad of challenges the company faces in Nigeria. Pickard opened the conversation by admitting that Shell had badly misjudged how the new administration would govern the petroleum sector and the company is struggling to adapt to the new decision making process. In

past administrations, Shell enjoyed direct access to the President and was able to safely brush aside senior petroleum regulators and Nigerian National Petroleum Corporation (NNPC) officials. ExxonMobil and Chevron, with considerably less production in the country and therefore less access to the President, learned to work the opaque Nigerian bureaucracy. With President Yar'Adua not inclined to make direct decisions in petroleum matters (or even meet with the oil companies) Shell is scrambling to maintain influence in the new administration. (Note: Chevron has made more headway than others without having direct access to the President. End Note.) As an example, Pickard recalled that both Shell and ExxonMobil were approached under the Obasanjo administration with requests to build power plants, with only Presidential assurances that they would be paid. ExxonMobil wisely demurred, but Shell agreed. However, payments from the GON have not materialized and the company finds itself out USD 2 billion for plant and gas costs with no recourse to the President.

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Oil's Role in the President's Trip to China  
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13. (C) On the President, Pickard told the Ambassador that she was worried that the Chinese would use Yar'Adua's upcoming trip to announce major oil deals. She speculated the Chinese may offer debt financing for NNPC to bridge its cash call shortfall. (Note: The cash call deficit is estimated at USD 5.4 billion for 2007 and 2008. End Note.) According to her, the Chinese are trying to reach Yar'Adua through his wife and daughter by plying them with bribes. Pickard said that Minister of State for Energy (Petroleum) Odein Ajumogobia had

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been former Rivers State governor Peter Odili's bagman, delivering ill-gotten cash to offshore accounts in China; consequently he maintains a close relationship with Chinese officials. (Note: He was recently in China to set up the Presidential trip. End Note.) Pickard termed the Chinese a "very serious threat to Shell" in Nigeria. Chinese efforts are ultimately directed at securing known good oil blocks outside of the regular bid process. She believes that Chinese interests are behind the dispute over oil block OPL 245; Shell is taking Nigeria to court over the issue under the auspices of the Dutch-Nigerian Bilateral Investment Treaty (reftel). Both Pickard and the Ambassador recalled the new Chinese cultural center in Port Harcourt and Pickard noted the increasing role of Chinese workers on oil rigs and seismic survey crews as they are the only people not intimidated by the security situation in the Delta region. Pickard anticipates increased Chinese participation in oilfield service operations in Nigeria as Western contractors leave the Niger Delta.

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Shell's View on Niger Delta Security and Politics  
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14. (C) Overall Pickard had mixed views of the security situation in the Niger Delta and the effect state governors are having on it. She termed the western Niger Delta "fairly quiet" and attributed a recent break in the 40 inch pipe in Forcados to inter-communal violence not directed at Shell. However, attacks on oilfield service boats operating on Bonny River are a growing problem and will impact offshore and deep offshore production. Shell is running its contact boats in convoys along Bonny River. While Shell's Forcados is producing 180,000 barrels per day (bpd), the company still has 170,000 bpd of production from Rivers State shut-in as well as 150,000 bpd from its "EA" field that lies offshore of Delta State.

15. (C) When asked about political progress in the region, Pickard characterized Rivers State Governor Rotimi Amaechi as "a waste of time" and "one of the bad guys" noting his close

connections to militant groups. She thought Delta State Governor Emmanuel Uduaghan and Bayelsa State governor Timipre Sylva were at least trying to maintain stability, but did not see any of the governors as particularly interested in socio-economic development, and added in the end they were all corrupt, just at different levels.

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New Legislation Taking an Ominous Turn?  
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¶6. (C) Pickard alleged that the reorganization of the Nigerian National Petroleum Corporation (NNPC) and accompanying legislation could make Nigeria "another Venezuela." When queried by the Ambassador if this view was widely held as she had not her this from others, Pickard said that the international oil companies were aligned "like she had never see before." In her view, the person leading the NNPC reorganization, Special Advisor on Energy Rilwanu Lukman, is "dangerous" and may be closely tied to Chinese and Russian interests. When queried about NNPC's finances, Pickard acknowledged that Shell is in negotiations with NNPC to loan the parastatal USD 2 billion in modified carry agreements, term loans, and bridge financing to help meet the cash call deficit. The negotiations are proceeding slowly as NNPC is balking at Shell's demand for securitization. Shell is also negotiating with NNPC over a planned reorganization of company operations in Nigeria. When the Ambassador asked about Shell's plans to lay off 3,000 employees in Nigeria,

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Pickard replied that she would settle for less than that amount and hoped to reduce headcount through voluntary resignations and targeted firings of known corrupt and questionable employees.

¶7. (C) Comment: Despite assurances that the industry is in general agreement with the view that Nigeria could be the next Venezuela, neither Chevron nor ExxonMobil senior executives have expressed that opinion in recent conversations. Most oil block licenses allow for revocation if the company fails to work the claim and Shell Petroleum Development Company is unique among operators in the amount of shut-in acreage. Consequently, it perceives itself as vulnerable to having those oil blocks taken away. Pickard is also an experienced political operator in oil and gas; she knows that threats of Venezuela and China may resonate with an American audience. Indeed, if Shell is really concerned about nationalization, a USD 2 billion loan to NNPC is an odd way of showing it. End Comment.

¶8. (U) This cable was cleared with Embassy Abuja  
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